

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2005-125-G**

IN RE:

Piedmont Natural Gas	)	
Company's Application of the	)	<b>SETTLEMENT AGREEMENT</b>
Natural Gas Rate Stabilization Act	)	
To its Rates and Charges.	)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2006), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2007 for the review period consisting of April 1, 2006 through March 31, 2007 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2007, pursuant to the Act, was filed with the Commission on August 31, 2007;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket.

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2007 calculated on the basis of an 11.2% ROE.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Average Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.2% ROE, South Carolina ratepayers will realize a reduction in current margin rates totaling (\$2,506,940).

5. The Parties agree to an adjustment for Demand Cost Under-Recovery of \$1,797,800.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use

reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.


8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:

**Representing and binding the Office of Regulatory Staff**

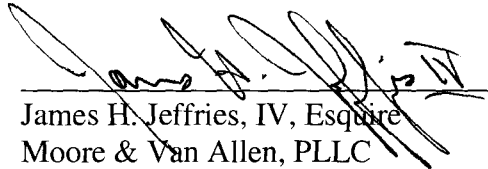


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WE AGREE:

**Representing and binding Piedmont Natural Gas Company, Inc.**

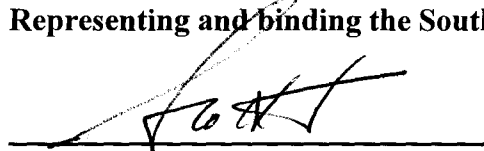


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WE AGREE

**Representing and binding the South Carolina Energy Users Committee**

A handwritten signature in black ink, appearing to read "Scott Elliott", is written over a horizontal line.

Scott Elliott, Esquire

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Piedmont Natural Gas Company  
South Carolina Operations  
Net Operating Income and Rate of Return  
For the Twelve Months Ended March 31, 2007  
Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(5) Adjustments for Demand Cost Under-Recovery	(6) Total After Proposed Rates
<b><u>Operating Revenues</u></b>						
1 Sale and Transportation of Gas	\$ 201,382,985	\$ (1,076,672) (1)	\$ 200,306,313	\$ (2,506,940) (12)	\$ 1,797,800 (18)	\$ 199,597,173
2 Other Operating Revenues	945,789	0	945,789			945,789
3 Total Operating Revenues	202,328,774	(1,076,672)	201,252,102	(2,506,940)	1,797,800	200,542,962
<b><u>Operating Expenses</u></b>						
4 Cost of Gas	125,494,760	(2,098,826) (2)	123,395,934		1,785,055 (19)	125,180,989
5 Operations and Maintenance	30,349,750	(1,876,718) (3)	28,473,032	(6,037) (13)	4,299 (20)	28,471,294
6 Depreciation	11,529,236	(230,252) (4)	11,298,984			11,298,984
7 General Taxes	6,680,910	(191,658) (5)	6,489,252	(11,777) (14)	8,446 (21)	6,485,921
8 State Income Taxes	572,568	680,537 (6)	1,253,105	(124,456) (15)		1,128,649
9 Federal Income Taxes	14,264,806	(5,955,010) (7)	8,309,796	(827,634) (16)		7,482,162
10 Amortization of Investment Tax Credits	(59,487)		(59,487)			(59,487)
11 Total Operating Expenses	188,832,543	(9,671,927)	179,160,616	(969,904)	1,797,800	179,988,512
12 Net Operating Income	13,496,231	8,585,255	22,091,486	(1,537,036)	0	20,554,450
13 Interest on Customers' Deposits	(120,366)		(120,366)			(120,366)
14 Amortization of Debt Redemption Premium	(14,343)	(386) (8)	(14,729)			(14,729)
15 Allowance for Funds Used During Construction	274,075		274,075			274,075
16 Customer Growth	109,682	71,468 (9)	181,150	(12,604) (17)		168,546
17 Net Operating Income for Return	\$ 13,745,279	\$ 8,666,337	\$ 22,411,616	\$ (1,549,640)	\$ 0	\$ 20,861,976
<b><u>Original Cost Rate Base:</u></b>						
18 Plant in Service	\$ 360,882,042		\$ 360,882,042			\$ 360,882,042
19 Accumulated Depreciation	(129,944,541)		(129,944,541)			(129,944,541)
20 Net Plant in Service	230,937,501		230,937,501			230,937,501
Add:						
21 Construction Work in Progress	5,889,778		5,889,778			5,889,778
22 Materials and Supplies	19,784,206	(82,771) (10)	19,701,435			19,701,435
23 Cash Working Capital	4,943,966	(1,004,743) (11)	3,939,223			3,939,223
Deduct:						
24 Customers' Advances	3,599		3,599			3,599
25 Customers' Deposits	3,845,353		3,845,353			3,845,353
26 Accumulated Deferred Income Taxes	33,102,582		33,102,582			33,102,582
27 Unclaimed Funds	370,639		370,639			370,639
28 Original Cost Rate Base:	\$ 224,233,278	\$ (1,087,514)	\$ 223,145,764			\$ 223,145,764
29 Rate of Return	6.13%		10.04%			9.35%
30 Return on Equity	5.53%		12.42%			11.20%

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2007**  
**Docket No. 2005-125-G**

Line No.	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
1	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease revenues on a going-level basis.	\$ (1,076,672)	\$ (1,076,672)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b><u>\$ (1,076,672)</u></b>	<b><u>\$ (1,076,672)</u></b>
2	<b><u>Cost of Gas</u></b>		
	To decrease cost of gas on a going-level basis.	\$ (2,098,826)	\$ (2,098,826)
	<b><u>Total Cost of Gas</u></b>	<b><u>\$ (2,098,826)</u></b>	<b><u>\$ (2,098,826)</u></b>
3	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To decrease the payroll costs on a going-level basis, to annualize the payroll expense as of March 31, 2007, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (315,158)	\$ (147,185)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(34,061)	(29,493)
c.	Adjustment 3 c. not used by company.		
d.	To correct pension costs included in the filing.	(52,551)	(52,551)
e.	To adjust uncollectible gas cost expense utilizing the method recently approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account # 253.04. The applicable uncollectible gas cost rate is .24081%.	(274,537)	(373,546)
f.	To decrease expenses for allocations to non-utility activities.	(14,280)	(14,280)
g.	To decrease expenses for the Long-Term Incentive Plan.	(240,355)	(240,355)
h.	To decrease expenses for the Short-Term Incentive Plan.	(31,352)	(31,352)
i.	To increase expenses for the MVP Incentive Plan.	109,948	109,948



**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2007**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance as projected.	71,143	71,143
k.	To decrease expenses for the Piedmont Town Center lease.	(938)	(938)
l.	To decrease expenses for the South Carolina assessment fee.	(17,196)	(17,196)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(134,965)	(134,965)
n.	To decrease expenses for amortization of early retirement incentive.	<u>(1,015,948)</u>	<u>(1,015,948)</u>
	<b><u>Total Operations and Maintenance Expense</u></b>	<b><u>\$ (1,950,250)</u></b>	<b><u>\$ (1,876,718)</u></b>
<b>4</b>	<b><u>Depreciation Expense</u></b>		
	To decrease depreciation expense on a going-level basis using recently completed depreciation study rates.	<u>\$ (230,252)</u>	<u>\$ (230,252)</u>
	<b>Total Depreciation Expense</b>	<b><u>\$ (230,252)</u></b>	<b><u>\$ (230,252)</u></b>
<b>5</b>	<b><u>General Taxes</u></b>		
a.	To decrease property taxes on a going-level basis.	<u>\$ (12,262)</u>	<u>\$ (12,262)</u>
b.	To adjust payroll tax expense.	(148,692)	(174,338)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .16979%) for the adjustment made to decrease revenues on a going-level basis.	<u>0</u>	<u>(5,058)</u>
	<b>Total General Taxes</b>	<b><u>\$ (160,954)</u></b>	<b><u>\$ (191,658)</u></b>
<b>6</b>	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	<u>\$ 651,824</u>	<u>\$ 680,537</u>
	<b>Total State Income Taxes</b>	<b><u>\$ 651,824</u></b>	<b><u>\$ 680,537</u></b>

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2007**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (6,145,951)	\$ (5,955,010)
	<b><u>Total Federal Income Taxes</u></b>	<b>\$ (6,145,951)</b>	<b>\$ (5,955,010)</b>
8	<b><u>Amortization of Debt Redemption Premium</u></b>		
	To decrease net operating income for amortization of debt redemption premium.	\$ (386)	\$ (386)
	<b><u>Total Amortization of Debt Redemption Premium</u></b>	<b>\$ (386)</b>	<b>\$ (386)</b>
9	<b><u>Customer Growth</u></b>		
	To increase net operating income to reflect anticipated customer growth (rate of .82%) following the adjustments to operating revenues and expenses.	\$ 72,632	\$ 71,468
	<b><u>Total Customer Growth</u></b>	<b>\$ 72,632</b>	<b>\$ 71,468</b>
10	<b><u>Materials and Supplies</u></b>		
	To adjust materials and supplies to reflect actual gas inventory levels.	\$ 0	\$ (82,771)
	<b><u>Total Materials and Supplies</u></b>	<b>\$ 0</b>	<b>\$ (82,771)</b>
11	<b><u>Cash Working Capital</u></b>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (243,781)	\$ (1,004,743)
	<b><u>Total Cash Working Capital</u></b>	<b>\$ (243,781)</b>	<b>\$ (1,004,743)</b>
12	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 0	\$ (2,506,940)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b>\$ 0</b>	<b>\$ (2,506,940)</b>

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2007**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
13	<b><u>Operations and Maintenance Expenses</u></b>		
	To decrease the provision for uncollectible accounts (.24081%) for the proposed margin decrease.	\$ 0	\$ (6,037)
	<b><u>Total Operations and Maintenance Expenses</u></b>	<u>\$ 0</u>	<u>\$ (6,037)</u>
14	<b><u>General Taxes</u></b>		
	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .16979%) for the proposed margin decrease.	\$ 0	\$ (11,777)
	<b><u>Total General Taxes</u></b>	<u>\$ 0</u>	<u>\$ (11,777)</u>
15	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	\$ 0	\$ (124,456)
	<b><u>Total State Income Taxes</u></b>	<u>\$ 0</u>	<u>\$ (124,456)</u>
16	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	\$ 0	\$ (827,634)
	<b><u>Total Federal Income Taxes</u></b>	<u>\$ 0</u>	<u>\$ (827,634)</u>
17	<b><u>Customer Growth</u></b>		
	To decrease net operating income to reflect anticipated customer growth (rate of .82%) following the proposed margin decrease.	\$ 0	\$ (12,604)
	<b><u>Total Customer Growth</u></b>	<u>\$ 0</u>	<u>\$ (12,604)</u>
18	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery.	\$ \$1,795,575	\$ 1,797,800
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<u>\$ \$1,795,575</u>	<u>\$ 1,797,800</u>

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2007**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
19	<b><u>Cost of Gas</u></b>		
	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.16%, based upon the most recent design day study.	\$ <u>\$1,785,055</u>	\$ <u>1,785,055</u>
	<b><u>Total Cost of Gas</u></b>	\$ <u>\$1,785,055</u>	\$ <u>1,785,055</u>
20	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To increase the provision for uncollectible accounts (rate of .24081%) following the adjustment to revenues for demand cost under-recovery.	\$ 5,181	\$ 4,299
b.	To increase the franchise taxes (rate of .30%) following the adjustments to revenues for demand cost under-recovery.	<u>5,340</u>	<u>0</u>
	<b><u>Total Operations and Maintenance Expenses</u></b>	\$ <u>10,521</u>	\$ <u>4,299</u>
21	<b><u>General Taxes</u></b>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .16979%) for the adjustment made to revenues for demand cost under-recovery.	<u>0</u>	<u>8,446</u>
	<b><u>Total General Taxes</u></b>	<u>0</u>	<u>8,446</u>

**Piedmont Natural Gas Company  
South Carolina Operations  
Average Weighted Cost of Capital  
Docket No. 2005-125-G**

**Schedule 3**

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>As Adjusted</u>				<u>After Proposed Increase</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Net Operating Income</u>
Long-Term Debt	767,560,983	43.21%	96,882,849	6.92%	2.99%	6,704,293	96,412,974	6.92%	2.99%	6,671,778	96,412,974	6.92%	2.99%	6,671,778
Common Equity	1,008,942,469	56.79%	127,350,429	5.53%	3.14%	7,040,986	126,732,790	12.42%	7.05%	15,739,838	126,732,790	11.20%	6.36%	14,190,198
<b>Total</b>	<b>1,776,503,452</b>	<b>100.00%</b>	<b>224,233,278</b>		<b>6.13%</b>	<b>13,745,279</b>	<b>223,145,764</b>		<b>10.04%</b>	<b>22,411,616</b>	<b>223,145,764</b>		<b>9.35%</b>	<b>20,861,976</b>